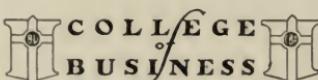


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THESIS

Social Security in the United States

by

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(B.S. Regis College 1943)

submitted in partial fulfillment of
the requirements for the degree of

Master of Business Administration

1944

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INTRODUCTION

INTRODUCTION

THE MEANING OF SOCIAL SECURITY

Protection Against the Four Major Risks of the Present Age

Social Security is the assurance of protection, by the age-old principle of reducing risk by sharing it, against the four major uncertainties inherent in the present economic order, namely, insecurity due to old-age, insecurity due to unemployment, insecurity due to sickness, and insecurity due to the death of a breadwinner. One author defined Social Security in the following manner:

"Social Security is achieved when the economic security of the individual is assured in ways that commend themselves to the mass of the community as being just and fair, and which disturb the smooth-running of our economic order as little as possible." (1)

Social Insurance

The method most widely adopted for the attainment of this security is that of social insurance. The principles of social insurance have been widely accepted and practiced in all of the important nations of the world. Abraham Epstein, noted scholar of social insurance, explains the principle of

(1) Burns, E. M., Toward Social Security, New York, 1936, p. 9

social insurance simply, when he says:

"Social insurance aims at the maximum application of the principle of insurance, in the protection of workers against persistent insecurities." (1)

The principle of insurance is the reduction of cost for protection, by the distribution of risk. Social insurance is simply insurance in its widest sense, because it spreads the risk to every worker. The individual does not face the danger of insecurity alone. Conversely, by socializing the risk, he faces it with a group. Every wage earner contributes. Thus, it can easily be seen why social insurance has been so widely accepted, as a means whereby a nation can prepare itself against insecurity. Protection is afforded practically everyone at a very low cost.

Development of Social Security

A feature that is found in all societies is man's constant search for Social Security. The desire for Social Security is almost as old as man himself. When he realized the inevitability of insecurity, he turned toward socialized methods of meeting risk. As society advanced, he grew in knowledge and intellect; as a result, his methods of providing for a socially secure economic order continually changed.

(1) Epstein, Abraham, Insecurity; A Challenge to America, New York, 1936, p. 22

During the past two centuries, the individual has become less and less secure because of the complexities of an industrial and capitalistic society. Poverty and destitution have become more prevalent than ever before. The above-mentioned types of insecurity have now developed into problems of major social importance; consequently, the individual has become conscious of a decided need for social legislation in the economic system. The Social Security Board is making an intensive study of economic conditions and social legislation, not only of our own country, but also of other countries who have shown progress in this field, in an attempt to set up a system in the United States which will make its people socially secure. Efforts have never been as strong, nor desires as great as they are today for a socially secure economic order.

Objectives of Thesis

It has been said that a vital test of the progress of a nation is the degree of security it affords its members. It is the purpose of this thesis to show to what degree of security the United States has advanced, and what measures it has utilized to provide this security to "life, liberty, and the pursuit of happiness". (1)

- (1) Constitution of the United States of America

In order to better understand the system that is being used today in the United States, a study will be made of the history and development of social legislation. I shall seek to discover the forces which made social insurance laws necessary in this country. I shall trace the development of the acts of social legislation which culminated in one of the greatest pieces of social legislation of all time--The Social Security Act. A detailed study will be made of this Act. Also, a study will be made of the developments in Social Security from the passage of the Social Security Act up to the present. The development of social legislation in the United States will be viewed in perspective, considering the result of the attempts of the American people to provide for themselves a nation which is socially secure. Finally, since we are once again at war, and since the war will have an important effect upon our Social Security, a few notes will be made on post-war Social Security.

SECTION I

SECTION I

THE HISTORY OF SOCIAL SECURITY

Increasing Tendency Toward Social Security.

During the last half century, there has been a steady tendency toward the substitution of group action in place of the highly individualistic action that was assumed in the doctrine underlying laissez-faire capitalism. Voluntary insurance has been replaced to a considerable degree by social insurance. However, this movement toward Social Security is not a radical development. On the contrary it may be traced back to the beginning of economic society.

Origin of Social Security.

The stream of goods and services upon which life depends has never flowed with unfailing regularity. Ever since the beginning of the human race, man has been faced with insecurity. Primitive man had to provide himself with food and shelter and protect himself against attacks from wild beasts. Sometimes he conquered; often he failed. It was the influence of these failures that led him to form the clan and tribe. He discovered that in union there is strength. United, these early men were better able to meet the dangers that confronted them.

This was the beginning of Social Security. These men did not have any name for their new security, but actually they were carrying out the basic principle of social security, because they were facing risk in a group. The desire for individual security was supplanted by the desire for group or social security.

Continued Use of Principle of Social Security.

As civilization progressed, efforts were bent more and more toward the elimination or reduction of uncertainties. The age of agriculture provided more security than the preceding age of hunting and fishing. Industry has provided more stabilization than farming. Science and medicine have made remarkable progress in the reduction of sickness. However, some of the risks could not be entirely eliminated, and with each new age, notably the industrial age, new risks appeared. In the facing of these risks, the principle of Social Security was continually being practiced in one form or another.

In the world's oldest civilization, that of China, the family system afforded a high degree of social protection and security. If a member needed help, the whole family shared the burden.

Treatment of Risks by Early Societies.

Although feudalism is often regarded as a backward and unprogressive form of social organization, its stability

gave the individual a security not found in the days of rapid change. The manorial system furnished military protection on a co-operative basis. If crops failed, the liege lord was obligated to take care of his peasants, for the land was their only means of livelihood.

Also, sickness and accident insurance are found to have existed in the Middle Ages. (1) Funds were established by many of the medieval guilds for the protection of their members against fire, sickness, disability, and old age.

The following is an example of the practices of the period:

"Every brother who becomes disabled, or falls sick, shall receive the sum of $3\frac{1}{2}$ pfennigs a day if he needs it, but if the Lord restores him to health and enables him to take up his work again, he shall repay the money. If his incapacity is prolonged, and if his needs are greater, money shall be lent him on security, and if he dies the Fraternity shall recoup itself from his estate." (2)

However, the institution of insurance began to develop even more rapidly in the period of commercial growth from 1450 to 1750.

- (1) Stewart, Maxwell S., Social Security, W. W. Norton & Co., Inc., New York, 1937, p. 106
- (2) Quoted from Voluntary Sickness Insurance, Geneva International Labor Office, Series M, No. 7, 1927, p. XIX

Effect of the Industrial Revolution Upon Security.

During the latter half of the eighteenth century and most of the nineteenth, an industrial revolution took place in the western world, and fundamental changes occurred in economic conditions. Society became more complex, and many new risks appeared, for which the individual was completely unprepared. During this period the principle of Social Security became an essential element of the economic order.

In Europe many measures of social protection were effected. Guilds were replaced by labor unions, and in 1831 British trade unions were paying allowances to members who were out of work. In 1893 the city of Berne, Switzerland, set up a system of unemployment insurance for its workers. (1)

In 1893 also, the Ghent system was established, taking its name from the city in Belgium in which it was first used. This system consisted of taking subsidies from the government treasury to support systems of trade union insurance, and was, consequently, a combination of mutual and public insurance. This was the beginning of public insurance. The Ghent system has spread widely among the cities and countries of Europe, and today it is a well established policy in Belgium, Czechoslovakia, Denmark, Finland, France, Holland, Norway, Spain, and Switzerland.

(1) Ibid., p. 105

The first old-age pension system was established in 1850 when Belgium offered voluntary old-age annuities. France adopted the same system in 1851. (1)

Compulsory old-age and invalidity insurance was introduced in Austria in 1854, and was followed by Belgium and France soon afterwards. (2)

During the industrial revolution wage-earners were left with little protection against sickness however, due to the fact that the labor unions which replaced the guilds did not provide for this eventuality. They did, toward the end of the nineteenth century, begin to obtain relief from the voluntary or friendly societies, which were outgrowths of the labor unions and whose purpose was to share the costs of sickness. These societies met with rapid success and are widespread in Europe today. (3)

Bismarck's Scheme of Social Protection.

In 1881 Chancellor Bismarck of Germany proposed a national plan for accident insurance. This plan was adopted in 1884 and was the most comprehensive of this type thus far. In 1890 Bismarck also put through a plan for insurance against old age. Both these plans were compulsory so that by 1911 not only accident insurance but also old-age insurance was within

(1) "Social Insurance", Encyclopaedia of the Social Sciences, MacMillan Co., New York, 1934, p. 134

(2) Stewart, M. S., Social Security, W. W. Norton & Co., Inc., New York, 1937, p. 106

(3) Ibid., p. 116

the reach of practically all the citizens of Germany. (1)

Denmark had a simple system for dealing with the problem of old age. Worthy citizens who were sixty years or over and who were in need of assistance received a regular pension from the government. (2)

Voluntary Insurance vs. Compulsory Insurance.

Voluntary insurance proved successful to those who had subscribed to it, but as a method of providing Social Security it was at a disadvantage. It could not provide security for a whole nation because it tended to include only small groups, since many workers were willing to take a chance rather than pay out money. For this reason there were many individuals who opposed the method of compulsory insurance.

The compulsory system met with considerable success in Germany, Austria, Hungary, Holland, Belgium, Switzerland and Denmark, but it was met with considerable resistance in the Latin countries of the continent and in Great Britain.

In 1908 an international congress, which had been formed to discuss the subject of social insurance, concluded after many sessions of debate, that compulsory insurance was the better path toward reaching Social Security. (3)

(1) Ibid., p. 108

(2) "Social Insurance", Encyclopaedia of the Social Sciences, MacMillan Co., New York, 1934, Vol. 14, p. 134

(3) Ibid., p. 134

Adoption of Method of Compulsory Insurance.

After the decision of the International Congress of Insurance, the method of compulsory insurance spread rapidly, and social insurance systems were inaugurated throughout Europe and the western hemisphere. The Danish plan lost its popularity because of the necessity of proving the need. This caused humiliation, and people started to look upon the pensions as a form of charity.

In 1913 Sweden adopted the contributory principle in establishing an old-age system for salaried workers. This system is credited with being "...one of the most comprehensive and generally satisfactory schemes for old-age protection in existence". (1)

In the foregoing development of social legislation in Europe, a definite attempt can be seen to counteract the new risks and dangers that emerged during the industrial revolution.

Effect of World War I Upon Social Legislation.

The changes in economic society brought about by the industrial revolution introduced new risks at an increasing pace, but not long after another economic upheaval was to take place which made social legislation even more urgent and vital. This was World War I.

(1) Stewart, M. S., Social Security, W. W. Norton Co., Inc., New York, 1937, p. 109

During the war itself there was little social legislation, but immediately following the war there was a flood of laws passed in many European countries to protect workers against unemployment.

During the war two neutral countries adopted the aforementioned Ghent System, the Netherlands in 1916, and Finland in 1917.

In 1911 Great Britain had established a system of compulsory unemployment insurance, but for two years after the war used a completely different method. This provided that non-commissioned soldiers and civilians who could not find work were permitted benefits from the British Government. The soldiers' contracts went on for two years and the civilians' for one year. In 1920, however, Great Britain returned to the former system of compulsory insurance, which, with many revisions is still being used today.

Germany and Austria also gave governmental assistance to those who were unemployed following the war.

The following list gives the order in which European countries adopted unemployment insurance laws: (1)

Netherlands.....	1916
Finland.....	1917
Spain.....	1919
Italy.....	1919
Austria.....	1920
Great Britain.....	1920
Czechoslovakia.....	1921
Soviet Union.....	1922
Australia.....	1922

(1) Ibid., p. 110, 111

Irish Free State.....	1922
Poland.....	1924
Switzerland.....	1924
Bulgaria.....	1925
Germany.....	1927

By the time of the world depression in 1929 every country in Europe, with the exception of Albania, Hungary, Sweden, Greece, Luxemburg, Portugal, Rumania, Yugoslavia, and the Baltic states had state unemployment insurance systems. (1)

In 1925 Great Britain established a system of old-age pensions and was soon followed by most of the European countries. Because of the increasing industrial accidents, compensation laws were passed for accident and sickness, with provisions also for widows and orphans. By 1934 social insurance systems totaled 235, and were divided as follows: (2)

Workmen's compensation.....	119
Health or sickness.....	26
Old age insurance and pensions.....	49
Survivors' (widows' and orphans') Ins....	23
Unemployment insurance.....	19

Thus, it can be seen that the nineteenth century doctrine of economic individualism, with the governmental policy of laissez-faire, became supplanted by a system of governmental supervision. Serious changes in the economic order, such as the Industrial Revolution and World War I, had disproved the theory of economic individualism, and brought about the failure

(1) Ibid., p. 111

(2) "Social Insurance", Encyclopaedia of the Social Sciences, MacMillan Co., Inc., New York, 1934, Vol. 14, p. 134

of unregulated capitalism. It became necessary for the government to exercise increasing social control. This control resulted in the rapid development of social insurance, protecting workers against unemployment, industrial disease and accident, and old age, and thus assured the individual of a greater social security.

SECTION II

SECTION II

FIRST ACTS OF SOCIAL LEGISLATION IN THE UNITED STATES

United States Slow In Enacting Social Legislation.

In the United States the movement toward Social Security, in comparison with the countries of Europe, has been considerably slow, and as a result, very little social legislation was enacted until the twentieth century.

However, in viewing this fact, it must not be considered in the light of absolute figures alone. There were forces existing in the United States which did not exist in other countries, and which tended to retard any movement toward social legislation.

Forces Retarding Protective Legislation.

During the nineteenth century, there was a considerable difference in the economic structure of America as compared with European countries. England, Belgium, parts of France and Germany were highly industrial. America was a new country with a wealth of undeveloped resources, and the economic status of the American wage worker was considerably higher than that of Europe. Also, America was predominantly agricultural and commerce and industry were on a relatively simple scale. It was only in the eastern manufacturing states and in the mining

states that industrial conditions similar to those of Europe were to be found, and where a permanent working class had begun to be formed.

The higher wages of the American worker tended to keep from the minds of the people any thought of poorer times. Those who did think about it, laid aside individual savings for unemployment, and also for sickness. There did not appear to be an immediate need for social legislation.

A second force retarding social legislation was the prevailing attitude toward meeting social risks. The existence of the frontier and the availability of free land created a highly individualistic spirit. This spirit was deeply embedded in the attitudes of the people toward the meeting of risk. Many believed that personal initiative and industry were the only requisites for material success. The vast land resources offered most people a chance to obtain a fairly good living. There were opportunities for everyone, and for awhile the frontier gave the American worker a certain degree of security.

Those who were in need of financial assistance were looked upon with scorn, and were considered lazy or incompetent. A history of social security described this attitude, stating:

"Any aid given the financially unfortunate carried with it the taint of pauperism." (1)

Toward the end of the eighteenth century, as markets were widening, a class of wholesale merchants arose engaging chiefly in marketing. Employers started to become dependent upon the merchant capitalists for the sale of their products. The competition which arose between employers in order to obtain the business of these capitalists brought about a reduction in the wages of workers, and the struggle against this decrease in wages gave workers little time to think about protective legislation.

During the eighteenth and nineteenth centuries the hours of labor in factories were from sunrise to sundown. Opposition to these long hours was still another problem giving workers little time to promote social legislation. Those who did attempt measures of social reform were opposed by employers who felt that the legislation was unnecessary and prejudicial to their interests. Workers were not as powerful as they were in Europe, where there was a strong labor vote.

Still another factor retarding social legislation was the existence of the forty-eight states. Each state considered herself sovereign in labor and industrial matters, and

(1) "Social Insurance", Encyclopaedia of the Social Sciences, MacMillan Co., New York, 1934, Vol. 14, p. 134

this made it difficult to get action. Business was mostly between the states, and if any one state imposed a tax or laid down a set of labor conditions, the rise in cost would place employers within its own borders at a competitive disadvantage, as compared with those in states not having such legislation. Consequently, this kept the more progressive states from acting. Thus, during the eighteenth and nineteenth centuries, no provision was made by the states to encourage workers to protect themselves against the risks of indigent old age, unemployment and sickness.

Voluntary Insurance.

Although there was no compulsory insurance legislation, voluntary insurance had developed to a certain degree. Workers could obtain protection through industrial insurance companies, trade-unions and fraternal and mutual aid associations.

Many of the national and local unions offered sickness benefits, and a small proportion gave benefits for temporary disability. Many railroads maintained funds which insured members against sickness. Casualty insurance companies offered accident and health policies. However, only a small proportion of these policies were taken out by workingmen.

By 1917 some 2,000,000 of the wage workers in the United States were insured against sickness or accident, but this figure was far short of a complete insurance of the working classes against accident or sickness. (1)

About 1912 interest began to be aroused in health insurance. Much of this interest was due to the work of the American Association for Labor Legislation. This association appointed a committee to study the subject and to devise a plan for compulsory health insurance. In 1915 the committee proposed a plan of compulsory health insurance which provided for all manual workers and all other employees receiving less than \$100 a month, except government employees, home workers and casual employees. The expenses for sickness were to be met by contributions from the state, the employer and the employee.

This plan aroused much interest and was considered by the legislatures of New York, Massachusetts, and New Jersey. However none of the states adopted it. (2) The doctrines of laissez-faire and individualism were still prevalent. Also insurance companies were opposed to state intervention. A member of the Illinois Commission for investigating health insurance stated:

- (1) Woodbury, Robert Morse, Social Insurance An Economic Analysis, Henry Holt & Co., New York, 1917, p. 28
- (2) Epstein, Abraham, Insecurity a Challenge to America, Random House, New York, 1936, p. 454

"The majority of the Commission saw no need in Illinois for state insurance against sickness and the subject was buried. The same fate attended the efforts in other states...I believe our defeat can be traced to the opposition of the two largest industrial insurance companies, of the American Medical Association and of the American Federation of Labor." (1)

There was practically no insurance against old age among the working men of the United States. In 1908 out of 12,000 funds operated by workmen, only four paid old age benefits. (2) Some of the fraternal associations gave old age annuities. The ordinary insurance companies did not offer many old age insurance policies, and industrial insurance companies offered even less. Railroad companies were the only groups that offered much protection against old age, but pensions were given only to employees who had given long service.

Provision for Relief.

Public relief was in the form of almshouses in which all classes of the poor were housed together. This has been described as a device of society to remove its failures from its sight and thus enable it to forget them. Later specialized homes for separate indigent classes were established, such as insane asylums, orphans' homes, and homes for the aged. This

- (1) Dr. Alice Hamilton, "The Opposition to Health Insurance", American Labor Legislation Review, Volume 19, 1929, p. 404
- (2) Woodbury, Robert M., Social Insurance an Economic Analysis, Henry Holt & Co., New York, 1917, p. 28

remained the principle method of taking care of the needy, through the first two decades of the twentieth century.

Recognition of Need for State Intervention.

Toward the end of the nineteenth century, people began to realize that the simple creed of individualism was no longer adequate. In the eastern section of the country manufacturing and trade were becoming dominant and risks were increasing rapidly. The majority of workers were engaged in industry.

Voluntary insurance was successful where it was used, but many individuals followed the pattern of their forefathers, and did not subscribe to it.

The idea of public welfare as a function of local government was breaking down. An author, writing during this period, stated:

"....we need not freedom from governmental interference, but a clear appreciation of the conditions that make for the common welfare, as contrasted with individual success, and an aggressive program of governmental control and regulation to maintain these conditions." (1)

People were beginning to see the need for government intervention, and the States came to recognize that they must share the responsibility with their local communities.

(1) Woodbury, Robert M., Social Insurance An Economic Analysis, Henry Holt & Co., New York, 1917, p. 5

Shortly after 1900, it was recognized that the aged, the blind, and the dependent children would be more effectively provided for, if they could be given a cash allowance in their own homes. If this kind of assistance were to be provided it was evident that the local governments could not do it alone.

Provision for care by their own families of dependent children was first recognized as a state responsibility by Oklahoma in 1908, when that state passed a law providing a widowed mother of a school-age child with a small allowance in the place of the possible earnings of the child, so that he might remain in school. (1)

From 1911 on, the need of "mothers' aid" gained recognition, until today forty-eight states, Alaska, Hawaii, and the District of Columbia have made provisions for granting public aid to maintain dependent children in their own homes.

The depression of 1929 was a strong influence in awakening the people of the United States to the need of social legislation. This depression, the greatest of all time, left 15,652,887 people unemployed in 1933. (2) Insecurity was now a stark reality. The failure of banks and sharp declines in the value of real estate, and in stocks and bonds left hundreds

(1) "Social Security", Encyclopaedia Britannica, Encyclopaedia Britannica, Inc., Vol. 20, p. 901A

(2) The American Federationist, Vol. 43, No. 1, January, 1936

of people destitute.

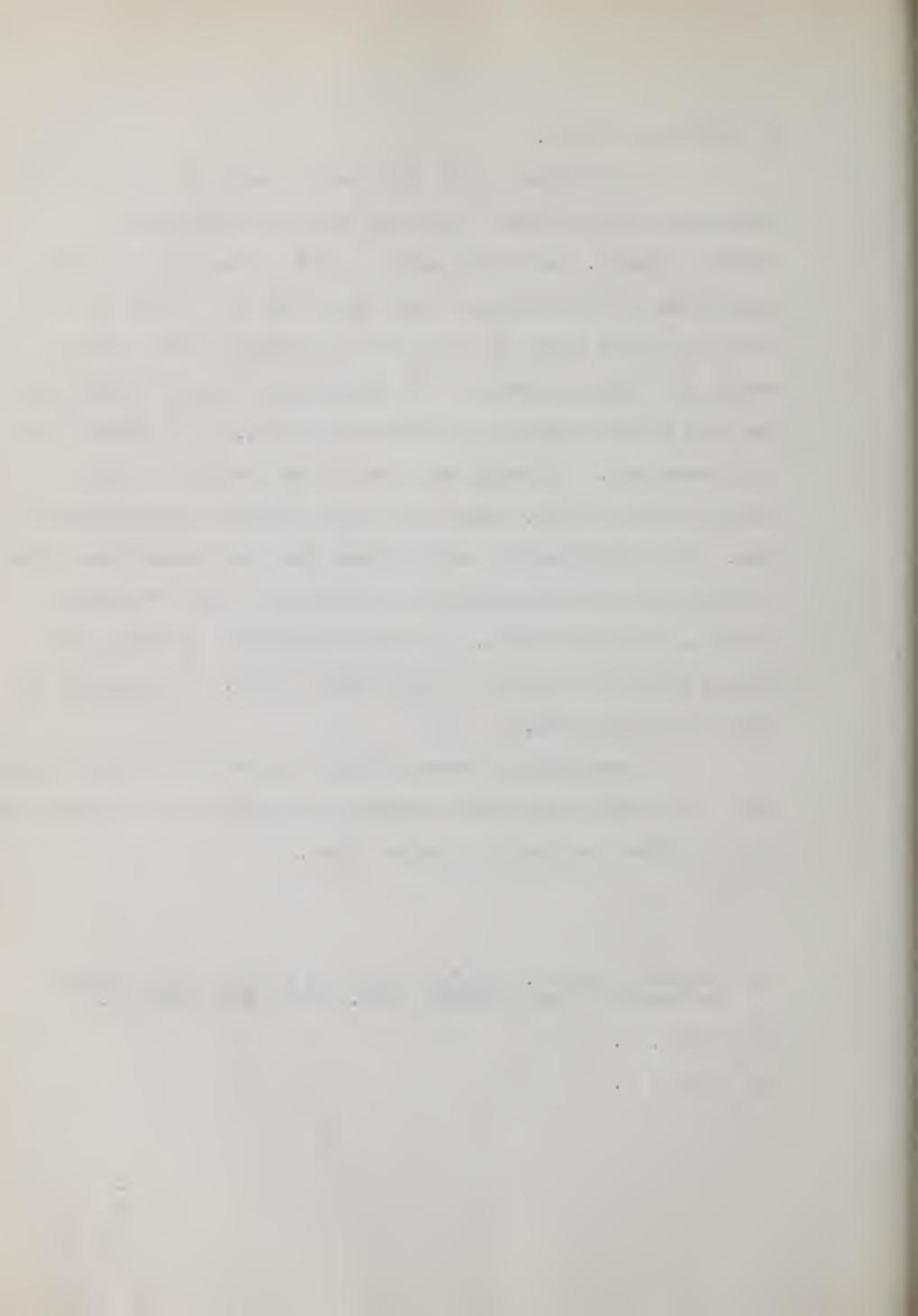
In addition to the depression, many old people were unemployed due to their inability to adapt themselves to factory methods. Also the number of old people in the total population was increasing. Realizing this the states in the north and south began to pass old-age pension laws. California and Wyoming adopted old age pension laws in 1929, and New York and Massachusetts followed in 1930. (1) These laws were mandatory. Although many states had passed old age pension laws by 1934, there were still twenty states without them. (2) Furthermore, many states that had passed laws were finding difficulty in paying benefits due to the financial strain of the depression. In the earlier part of 1934, the average monthly pension was about \$19 or \$20. In December of 1934 it was only \$16.16. (3)

Insecurity had pervaded the entire social and economic order, and the states were beginning to realize that it was too big a problem for them to tackle alone.

(1) Douglas, Paul H., Social Security In The United States, McGraw-Hill Book Company, Inc., New York, 1936, p. 7

(2) Ibid., p. 8

(3) Ibid., p. 9



Acceptance of Need for Federal Aid.

The long-delayed need for national action was finally accepted. Five years of depression had aggravated the already existing problems of insecurity, and it was recognized that the states would not be able to bear the burdens alone.

On June 8, 1934, President Franklin D. Roosevelt sent to Congress the following message: (1)

"Our task of reconstruction does not require the creation of new and strange values. It is rather the finding of the way once more to known, but to some degree forgotten, ideals and values. If the means and details are in some instances new, the objectives are as permanent as human nature.

"Among our objectives I place the security of the men, women and children of the nation first...

"Fear and worry based on unknown danger contribute to social unrest and economic demoralization. If, as our Constitution tells us, our Federal Government was established among other things 'to promote the general welfare', it is our plain duty to provide for that security upon which welfare depends.

"Next Winter we may well undertake the great task of furthering the security of the citizen and his family.

"This is not an untried experiment. Lessons of experience are available from states, from industries and from many nations of the civilized world. The various types of social insurance are inter-related; and I think it is difficult to attempt to solve them piecemeal. Hence, I am looking for a sound means which I can recommend to provide at once security against several of the great disturbing factors in life--especially those which relate to unemployment and old age.....

"I have commenced to make, with the greatest care, the necessary actuarial and other studies for the formulation of plans for the consideration of the Seventy-fourth Congress." (2)

(1) Epstein, Abraham, Insecurity A Challenge To America, Random House, New York, 1936, p. 670

(2) President Roosevelt, Message To Congress, June 8, 1934

The national government now recognized its obligation of trying to alleviate existing conditions of insecurity. The President's message had a strong effect on public sentiment and attitude. The subject of social insurance was no longer an undercurrent, but hailed throughout the nation.

Appointment of Committee on Economic Security by the President.

On June 29, 1934, President Roosevelt appointed a Committee on Economic Security, which was to study the problem and attempt to draw up a legislative program of social insurance.

The members appointed to this Committee were: Miss Frances Perkins, Secretary of Labor, Chairman; Mr. Henry Morgenthau, Jr., Secretary of the Treasury; Mr. Homer Cummings, Attorney General; Mr. Henry A. Wallace, Secretary of Agriculture; and Mr. Harry L. Hopkins, Federal Emergency Relief Administrator. (1)

The Committee on Economic Security organized a Technical Board on Economic Security, which consisted of twenty persons and was headed by the Second Assistant Secretary of Labor.

The Committee also appointed an Advisory Council on Economic Security, which was composed of twenty-three citizens,

(1) Epstein, Abraham, Insecurity A Challenge To America, Random House, New York, 1936, p. 672

representing employers, employees, the general public, a group of actuarial consultants, and a group of six advisory committees. This group of six advisory committees consisted of a Medical Advisory Board, a Public Health Advisory Committee, a Hospital Advisory Committee on Public Employment and Public Assistance, and a Child Welfare Committee.

SECTION III

SECTION III

WORK OF THE COMMITTEE ON ECONOMIC SECURITY

Handicaps of the Committee.

The Committee on Economic Security was faced with a tremendous and unenviable task. The problems they were about to tackle involved the welfare of an entire nation, and also a nation whose economic insecurity was greater than that of any other country. The problems were immediate, yet the committee had many difficulties to overcome before they could give the American people a plan of Social Security.

One of the Committee's greatest handicaps was the lack of knowledge on the subject of social insurance. The United States had had very little experience with it. It was true that they could draw upon the experience of European countries, which had been experimenting with the subject for fifty years, but they would have to be extremely careful in adapting it to American conditions.

The Committee was also aware of the many opponents of social insurance, such as employers, who were trying to keep back any attempt at social legislation.

Questions Before the Committee.

One of the first questions the Committee had to decide

upon was the extent of their subject, i.e., whether they should concentrate on the most immediate problem of unemployment, or whether they should attack all the types of insecurity that were prevalent among the people. To the admiration of many, the Committee chose all four of the great hazards, i.e. unemployment, old age, sickness, and the death of a breadwinner. No other country had ever attempted the problem of these four risks all in one stroke.

A second question upon which the Committee had to decide was whether the plan should be entirely state, entirely national, or a federal-state system of cooperation. By the time the Committee had completed their work, they had incorporated all three methods of operation.

The first method, which consisted of federal grants-in-aid to states enacting laws meeting specific minimum federal requirements, was decided upon to meet the problems of the destitute aged, the dependent children, maternity and infant care, child welfare and public health. This was the most practical method of taking care of these problems, and was also constitutional.

The second system, which consisted of contributory old-age insurance and non-contributory pensions, was considered the best method of providing for old age.

In regard to the method to be used in providing for unemployment, a great controversy arose. There were advocates of all three methods. The national plan was proposed by the

outside staff experts. They argued that industry was becoming national and thus, unemployment was rapidly becoming a national rather than a state problem, and could best be taken care of on a national basis. Mr. William Green, who was president of the American Federation of Labor pointed out that:

"In a society which is characterized as is ours by fluid capital, migratory industries, shifting labor markets, seasonal, technological, and cyclical forces, unemployment cannot be looked upon in any sense as a local, state, or even regional phenomenon, to be insured on anything less than a national basis." (1)

Proponents of this plan also pointed out that, in regard to administration, the national plan would be the easiest and most practical, since it would require only one central system of records.

The advantages of this plan were admitted, but many felt that Congress was not prepared, as yet, to handle it on such a tremendous scale. There was also a skepticism about the constitutionality of this plan.

The plan most favored for administering unemployment insurance was the state plan, with federal subsidies. This plan consisted of state unemployment insurance systems, subsidized by the Federal Government. The states would have to come up to certain requirements if they were to receive Federal aid. Under this plan one national tax would be levied on

(1) Economic Security Act, Hearings Before the Committee of Finance on S. 1130, United States Senate, Seventy-fourth Congress, First Session, January 22 to Feb. 20, 1935, United States Government Printing Office, p. 155

payrolls, for the purpose of revenue. The advocates stressed the advantage of this plan, namely, that the states would have the administrative authority, and thus, the system would not be on an entirely Federal basis. Although this plan was regarded as the best method of operation by economists and students of the problem, in the last analysis, it was not adopted.

The federal-state plan was the one chosen by the Technical Board, and the Cabinet Committee on Economic Security. This plan consisted of a federal tax on all employers, with credit of the tax in full or in part, to employers paying a similar tax to their state governments. The tax collected from employers was to be refunded to the states in full or in part, in the form of a subsidy. However, the reasons, given below, for the adoption of this plan in preference to the others were mostly negative:

"The Wagner-Lewis plan has the advantage over the subsidy plan that it will make it unnecessary to reach decisions under the Federal act on the most controversial questions in connection with unemployment insurance; whether plant funds shall be permitted and whether employees shall be required to contribute. It may be that these questions could be left to the decisions of the States even under the subsidy plan but certainly not as easily as under the Wagner-Lewis device. Another important consideration is that under this plan there would be no pressure on Congress to use sources of revenue other than contributions for unemployment insurance purposes, which is likely to become very strong under both the straight national and (Federal-State) subsidy plans. Finally, under the Wagner-Lewis bill, many states would doubtless pass unemployment insurance laws before the Federal tax became effective and could be litigated. In the event

that the Federal law should then be held unconstitutional, the state laws would continue to operate. Under the subsidy plan, in contrast, while the states would also be required to pass legislation, their laws would include no revenue-raising features, so that they would become inoperative if the Federal act should for any reason be held invalid or if the Federal appropriation is discontinued.

"After extended consideration of these three major alternative plans for the administration of unemployment insurance, the executive committee board finds that it is divided regarding which of these systems is to be preferred. The unemployment insurance committee of the Technical Board, as well as the executive director, believe that the exclusively national system should be definitely rejected. Many of the members of the staff, on the other hand, favor a national system.

"The unemployment insurance committee also holds the view that of the two alternative cooperative Federal-State systems, the Wagner-Lewis plan is distinctly preferable to the subsidy system." (1)

The constitutionality of this plan was also questioned in that it provided for the levying of a tax for a definite purpose. Also it was argued that the offset law would have a tendency to limit the financing of unemployment insurance to a levy upon payrolls. Further, employers would have to make two sets of contributions, one to the states, and one to the Federal Government.

This system did not provide for differences in unemployment among the different states, and states with little unemployment would be able to pay more unemployment benefits than states with a greater amount of unemployment.

In the tax offset plan there was also no provision

(1) Ibid., p. 330, 331

for migratory workers. If a worker had acquired eligibility in one state, but moved to another and became unemployed, he would have no protection.

In regard to the administration of the plan there would have to be forty-eight different sets of central records.

The Cabinet Committee on Economic Security would not give in to any of these arguments, and would not be moved from their decision for a tax-credit plan. When the final act was passed, the fallacies of this plan had not been removed.

The Committee on Economic Security had also to decide which groups, if not all, of the people should be covered by social insurance. They realized that the costs of administration would be excessive, especially in the beginning. Also they knew that it would be a tremendous and perhaps impossible task to try to take care of all groups in the first attempt. Consequently, they decided to concentrate on those who needed protection most, namely the industrial workers. This group was exposed to more risks and insecurity than other workers. Considering these factors, the Committee excluded from contributory unemployment insurance, agricultural workers, domestic servants, and employers having four or less employees.

The problem of administration was a difficult one, for it involved the collection and recording of contributions from millions of workers. The presence of the forty-eight states added to the problem. To be successful, the program of

social legislation necessitated an effective plan of administration.

The Committee on Economic Security proposed a Social Security Board to direct and administer the program. This Board was given the direct administration of mandatory old age insurance. It was to have a more general supervision over grants by and to the states for old age pensions, mothers' pensions, pensions for the blind, and unemployment insurance.

The Board is to consist of three members, each serving for six years, and each receiving a salary of \$10,000 a year. Not more than two are allowed to be members of the same political party, and none of the members may engage in any other business, vocation or employment while serving on the Board. The Chairman of the Board is to be appointed by the President of the United States. The Board may organize its staff and decide upon salaries for staff members.

The Committee had to see that the proposed legislation was within the powers of the Constitution. Oddly enough, the method which they chose for the operation of the program was open to questioning as to its constitutionality.

The tax-credit method involved setting up a tax for a specific purpose, which was not provided for within the Constitution. Also many state constitutions did not provide for the levying of a payroll tax.

The national plan, which the Committee chose for

the old age contributory system, was questioned in regard to placing all authority with the central government; however, this was the only way in which the problem could be adequately handled.

The subsidy plan, when divided into two bills, one setting up the tax and the other providing for the disbursement of money collected, was the least vulnerable, and yet this plan was used only in the welfare part of the program.

Congressional History of the Social Security Act.

The bill as finally completed by the Committee on Economic Security was introduced into Congress on January 17, 1935. A sharp reaction followed the introduction of the bill, due to its being extremely unintelligible. This was probably because of the haste with which it was drawn up. The bill had been drawn up in a little less than seven months.

As a result, the House Ways and Means Committee had to order its own draftsmen to make it more intelligible. These draftsmen, due to the confusing section on unemployment insurance, which provided for many different kinds of reserve systems, provided that all state funds be pooled and not divided.

The Committee on Economic Security had placed the administration under the Department of Labor, but the House Ways and Means Committee made it independent.

The House Committee weakened the subsidy provisions of the original bill. The original bill required that the

amount of state pensions to aged persons must assume "a reasonable subsistence compatible with decency and health." This provision was qualified so that state pensions were granted only so far as was practicable under the conditions of each state. No relationship to standards of decency was mentioned.

The only change in the unemployment insurance section was that the House Ways and Means Committee provided for a pooled fund of all employers' contributions. The House even accepted the tax-credit plan which had received so much criticism.

The payroll tax was changed from employers of four or more to employers of ten or more. The House Committee eliminated the requirement that all positions in the administration of a state unemployment insurance plan be filled by persons appointed on a non-partisan basis, and that they be selected on the basis of merit. This change now left the Social Security program open to political interference.

The most important changes were made in the system of contributory old age insurance. Secretary of the Treasury Morgenthau proposed:

"The substitute in the contributory old age annuity system of a scale of contributory taxes and benefit payments that will facilitate the continued operation of the system on an adequate and sound financial basis, without imposing heavy burdens upon future generations." (1)

Secretary Morgenthau suggested that the contribution rates be

(1) Epstein, Abraham, Social Security A challenge to America, New York, 1936, p. 734

raised from five per cent over a period of twenty years, to six per cent in twelve years, so that the Federal government would not have to be called upon for any contributions.

Secretary Morgenthau's plan was criticized in that the younger workers would be bearing most of the responsibility of all groups for the accumulated neglect of old age dependency. However, in spite of this criticism, the House Ways and Means Committee accepted Secretary Morgenthau's plan.

The House bill was debated on the floor between April 11th and 19th. All amendments from the floor were defeated and the bill was adopted by the House on April 19th with a vote of 371 to 33.

The bill was then sent to the Senate Finance Committee. This Committee eliminated the requirement that state unemployment compensation funds be pooled, in order to qualify for credit against the Federal tax, contending that it was up to the states to adopt whatever method they preferred.

In order that states provide an incentive to employers to stabilize employment, the Senate Finance Committee provided that additional credits be given to employers who are permitted lower rates of contributions under state laws.

The Senate Finance Committee returned to the original plan of a tax on employers of four or more employees, rather than ten, the number which the House Ways and Means Committee had decided upon. The Senate Finance Committee also returned to the original plan of having the Social Security

Board under the Department of Labor.

In order that employees over sixty-five years of age would not be able to draw old age annuities while earning sufficient wages in full-time employment, the Committee made retirement from regular employment a condition for payment of old age benefits. In regard to this provision the Senate Finance Committee argued:

"This was provided in the original bill but as the measure comes to the Senate it permits payment of old age benefits to workers who have reached age 65 but who still continue in regular employment. This is an anomaly which we believe should not be permitted. There is no need for payment of old age benefits to employees who continue in employment. This feature of the House bill materially increased the cost and would have necessitated additional taxes in future years. The amendment we suggest will prevent anyone from drawing an old age benefit while regularly employed. This will reduce the costs under title II by many millions of dollars in the course of the decades." (1)

The Senate Finance Committee made a change in the section which provided for aid to dependent children. Grants to the states were placed under direction of the Children's Bureau, instead of under the Social Security Board. The Committee made an addition to the bill, and drew up a provision which authorized an appropriation for Federal aid to the states in caring for the blind. The Senate Finance Committee also made a provision that authorized the Treasury to issue voluntary Federal old age annuity bonds.

(1) The Social Security Bill, United States Senate, Seventy-fourth Congress, First Session, Report No. 628, pp. 9, 10

The Senate debated the bill from June 14 to 19. It was adopted along the lines recommended by its Committee on June 19, with a vote of 76 to 6.

Two months were spent on straightening out differences between the Senate Finance Committee and House Ways and Means Committee, and the bill was finally approved by the President on August 14, 1935.

SECTION IV

SECTION IV

THE SOCIAL SECURITY ACT

Purpose of the Social Security Act

The Social Security Act was formulated because of the imperative need for legislative action in the United States, because of the insecurity which was threatening the foundations of our social order.

The stated purpose of the Social Security Act is:

"to provide for the general welfare by establishing a system of Federal old-age benefits, and by enabling the several States to make more adequate provision for aged persons, blind persons, dependent and crippled children, maternal and child welfare, public health and the administration of their unemployment compensation laws; to establish a Social Security Board; to raise revenue, and for other purposes." (1)

Provisions of the Social Security Act

The Social Security Act is composed of the following eleven titles:

Title I -- Provisions for aid to the States by the Federal government in

- (1) Social Security Act, Seventy-fourth Congress, Publication No. 271, p. 1

granting old-age pensions to men and women over sixty-five years of age, who are dependent on the public for support.

Title II -- Provisions for old-age benefits.

Title III -- Provisions for Federal grants to the States for the administration of unemployment insurance.

Title IV -- Provisions for appropriations for financial assistance to States which have an approved plan of aid to needy dependent children.

Title V -- Provisions for Federal grants to the States for the extention and improvement of services for mothers' and children's health.

Title VI -- Provisions for subsidies to States, counties, and health districts for the establishment and maintenance of public health services.

Title VII -- Provisions for a Social Security Board which will perform the administration of the Social Security Act.

Title VIII -- Provisions for the levying upon the incomes of workers, a tax which is to

be used for old age benefits.

Title IX -- Provisions for an excise tax on employers having eight or more workers, for the purpose of unemployment insurance.

Title X -- Provisions for appropriations to aid the States in taking care of their needy blind.

Title XI -- Definitions of terms used in the Act.

The above titles of the Social Security Act will now be discussed in detail.

Title I provides that the Federal government shall aid the States in granting old-age pensions to men and women over sixty-five years of age who are dependent on the public for support. The expenditures of the States will be matched by the Federal government up to a maximum of \$15 per month per person. 5 per cent of the Federal grant is to be used for administration. In order to receive the Federal aid the States must conform to the following requirements;

- "1. The state plan must operate in all political subdivisions of the state.
- "2. It must provide for financial participation by the state.
- "3. It must provide for a single board to administer or supervise the administration of the

state plan.

- "4. It must guarantee the opportunity for a fair hearing before the state agency to individuals whose claims for aid are denied.
- "5. It must establish such methods of administration (other than those relating to selection, tenure of office and compensation of personnel) which, in the opinion of the federal board, are necessary for the proper administration of the state plan.
- "6. The state agency must also make such reports and comply with such provisions as are required by the Federal Social Security Board. States with constitutional obstacles may receive Federal grants without state financial participation until July 1, 1937." (1)

Title I of the Social Security Act also provides that no state plan will be approved, which imposes as a condition of eligibility for old age assistance the following requirements:

- "1. An age requirement of more than sixty-five years, except that the plan may impose, effective until January 1, 1940, an age requirement of as much as seventy years; or
- "2. Any residence requirement which excludes any

(1) Social Security Act, Seventy-fourth Congress, Publication No. 271, p. 2

resident of the State who has resided therein five years during the nine years immediately preceding the application for old-age assistance and has resided therein continuously for one year immediately preceding the application; or

"3. Any citizenship requirement which excludes any citizen of the United States." (1)

Title II of the Social Security Act provides for old age benefits. Payments are to be made from an Old Age Reserve Account, which is set up in the United States Treasury, beginning June 30, 1937. The necessary appropriations are to be submitted to Congress annually by the Secretary of the Treasury. This money may be invested only in interest-bearing obligations of the United States, or in obligations guaranteed as to both principal and interest in the United States.

To qualify for these old age benefits an individual must have reached sixty-five years before that date, and received at least \$2,000 in wages since December 31, 1936.

If the worker has received after December 31, 1936, and before reaching the age of sixty-five, not more than \$3,000 in total wages, the monthly old age benefit will be one-half of one per cent of the total wages.

(1) Ibid., p. 2

If the total wages exceed \$3,000, the monthly old age benefit will equal the sum of the following:

- a. One-half of one per cent of \$3,000.
- b. One-twelfth of one per cent of the amount by which such total wages exceeded \$3,000 and did not exceed \$45,000.
- c. One twenty-fourth of one per cent of the amount by which such total wages exceeded \$45,000.

In this manner, the monthly benefit will not be lower than \$10 per month. The Act specifies that the maximum monthly benefit shall be \$85.

If the worker dies before reaching the age of sixty-five, and has contributed to the old age insurance fund, payments will be made to his estate equal to three and one-half per cent of the deceased's total wages after December 31, 1936.

If the annuitant continues to receive wages for regular employment, his benefit is reduced for each month by an amount equaling one month's benefit.

If for some reason an individual, upon reaching the age of sixty-five, does not qualify for benefits, he will receive a lump sum equal to three and one-half per cent of the total wages received after December 31, 1936, and before he reached the age of sixty-five.

Payments are to be made by the Treasury Department, after they have been certified by the Social Security Board.

These benefits are to be financed by an income tax upon employees, and an excise tax on employers.

Title III of the Social Security Act makes provision for grants to the states for the administration of unemployment insurance. Before receiving these grants the state laws must be approved by the Social Security Board, and must contain the following provisions in order to obtain approval:

- "1. Such methods of administration (other than those relating to selection, tenure of office, and compensation of personnel) as are found by the Board to be reasonably calculated to insure full payment of unemployment compensation when due; and
- "2. Payment of unemployment compensation solely through public employment offices in the State or such other agencies as the Board may approve; and
- "3. Opportunity for a fair hearing, before an impartial tribunal, for all individuals whose claims for unemployment compensation are denied; and
- "4. The payment of all money received in the unemployment fund of such State, immediately upon such receipt, to the Secretary of the Treasury, to the Credit of the Unemployment Trust Fund (established by the Act); and

- "5. Expenditure of all money requisitioned by the State agency from the Unemployment Trust Fund, in the payment of unemployment compensation, exclusive of expenses of administration; and
- "6. The making of such reports, in such form and containing such information, as the Board may from time to time require. . . .; and
- "7. Making available upon request to any agency of the United States charged with the administration of public works or assistance through public employment, the name, address, ordinary occupation and employment status of each recipient of unemployment compensation, and a statement of such recipient's rights to further compensation under such law." (1)

The amounts to be granted each state for the administration of unemployment insurance is to be based upon the population of the state, the number of persons covered by State law, and any other factors which the Social Security Board might consider necessary.

Title IV of the Social Security Act authorizes appropriations for financial assistance to states which have an approved plan of aid to needy dependent children.

(1) Social Security Act, Seventy-fourth Congress, Publication No. 271, p. 8

This title provides that sums granted to the states are not to exceed one-third of the total amount spent by the states up to \$18 a month for a single child, and \$12 a month for each additional child.

The qualifications for receiving these subsidies are practically the same as those for receiving old age assistance grants, which were listed under Title I.

Title V of the Social Security Act provides for grants to states for the extension and improvement of services for mothers' and children's health. Subsidies will be granted for the following purposes:

1. For the extension and improvement of local maternal and child health services administered by local child-health units.
2. For extending and improving the state services for locating crippled children, and for providing medical, surgical, corrective and other services and care for such children.
3. To enable the United States Children's Bureau to cooperate with State public welfare agencies in establishing, extending and strengthening, especially in predominantly rural areas, public welfare services for the protection and care of homeless, dependent and neglected children, and children in danger of becoming delinquent.

4. To enable the United States to cooperate with the states and Hawaii in extending and strengthening their programs of vocational rehabilitation of the physically disabled and to continue to carry out the provisions of the Federal Vocational Rehabilitation Act.

The grants and appropriations will be directed by the Children's Bureau of the United States Department of Labor and the Office of Education in the Department of the Interior.

The requirements necessary to receive Federal grants are similar to those required for grants-in-aid for dependent aged and children.

Title VI of the Social Security Act provides for subsidies to states, counties, and health districts for the establishment and maintenance of public health services. \$8,000,000 is to be appropriated for each fiscal year. The Act also appropriates \$2,000,000 for investigation by the Federal Public Health Service of disease and sanitation problems in the United States.

The amounts to be given each state will be determined by the Surgeon General of the Public Health Service, with the approval of the Secretary of the Treasury.

Title VII of the Social Security Act provides for a Social Security Board, which will perform the administration of the Social Security Act. This Board is to consist of

three members appointed by the President of the United States, not more than two of which may be members of the same political party. The salary for each member is to be \$10,000 a year, and no member may engage in any other business, vocation or employment, while a member of the Board.

Title VIII of the Social Security Act provides for the levying upon the incomes of workers a tax, which is to be used for old age benefits. This tax will be levied upon wages received after December 31, 1936. The tax will be equal to the following percentages of wages:

- "1. With respect to employment during the calendar years, 1937, 1938 and 1939, the rate shall be 1 per centum.
- "2. With respect to employment during the calendar years 1940, 1941, and 1942, the rate shall be $1\frac{1}{2}$ per centum.
- "3. With respect to employment during the calendar years 1943, 1944, and 1945, the rate shall be 2 per centum.
- "4. With respect to employment during the calendar years 1946, 1947, and 1948, the rate shall be $2\frac{1}{2}$ per centum.
- "5. With respect to employment after December 31, 1948, the rate shall be 3 per centum." (1)

(1) Social Security Act, Seventy-fourth Congress, Publication No. 271, p. 19

The tax is to be deducted from the wages of the individual when he is paid, and is to be collected by the Bureau of Internal Revenue and paid into the Treasury of the United States.

This title specifically defines wages to mean "all remuneration for employment, including the cash value of all remuneration paid in any medium other than cash; except that such term shall not include that part of the remuneration which, after remuneration equal to \$3,000 has been paid to an individual by an employer with respect to employment during such calendar year." (1)

This title specifically defines employment to mean:

- "l. Any service, of whatever nature, performed within the United States by an employee for his employer, except---
 - a. Agricultural labor.
 - b. Domestic service in a private home.
 - c. Casual labor not in the course of the employer's trade or business.
 - d. Service performed as an officer or member of the crew of a vessel documented under the laws of the United States or of any foreign country.

(1) Social Security Act, Seventy-fourth Congress, Publication No. 271, p. 19

- e. Service performed in the employ of the United States Government or of an instrumentality of the United States.
- f. Service performed in the employ of a State, a political subdivision thereof, or an instrumentality of one or more States or political subdivisions.
- g. Service performed in the employ of a corporation, community chest, fund, or foundation, organized and operated exclusively for religious, charitable, scientific, literary, or educational purposes, or for the prevention of cruelty to children or animals, no part of the net earnings of which inures to the benefit of any private shareholder or individual." (1)

Title IX of the Social Security Act provides for an excise tax on employers having eight or more workers, for the purpose of unemployment insurance. This tax is to be one per cent of wages paid for 1936, two per cent for 1937, and three per cent after December 31, 1937.

If the employer has paid into an approved state unemployment fund, he may credit this amount against the federal tax. This credit may not exceed ninety per cent of the federal tax. Additional credits may be given for an amount "with

(1) Social Security Act, Seventy-fourth Congress, Publication No. 271, p. 22

respect to each State law, equal to the amount, if any, by which the contributions, with respect to employment in such taxable year, actually paid by the taxpayer under such law before the date of filing his return for such taxable year, is exceeded by whichever of the following is the lesser:

- "1. The amount of contributions which he would have been required to pay under such law for such taxable year if he had been subject to the highest rate applicable from time to time throughout such year to any employer under such law; or
- "2. Two and seven-tenths per centum of the wages payable by him with respect to employment, with respect to which contributions for such year were required under such law.
- "3. If the amount of the contributions actually so paid by the taxpayer is less than the amount which he should have paid under the State law, the additional credit under subsection (a) shall be reduced proportionately.
- "4. The total credits allowed to a taxpayer under this title shall not exceed 90 per centum of the tax against which such credits are taken." (1)

To be approved by the Social Security Board the state

(1) Social Security Act, Seventy-fourth Congress, Publication No. 271, p. 27

unemployment laws must provide that:

- "1. All compensation is to be paid through public employment offices in the State or such other agencies as the Board may approve.
- "2. No compensation shall be payable with respect to any day of unemployment occurring within two years after the first day of the first period with respect to which contributions are required.
- "3. All money received in the unemployment fund shall immediately upon such receipt be paid over to the Secretary of the Treasury to the credit of the Unemployment Trust Fund. . . .
- "4. All money withdrawn from the Unemployment Trust Fund by the State Agency shall be used solely in the payment of compensation, exclusive of expenses of administration.
- "5. Compensation shall not be denied in such State to otherwise eligible individual for refusing to accept new work under the following conditions:
 - a. If the position offered is vacant due directly to a strike, lockout, or other labor dispute.
 - b. If the wages, hours, or other conditions of the work offered are substantially

less favorable to the individual than those prevailing for similar work in the locality.

c. If as a condition of being employed the individual would be required to join a company union or to resign from or refrain from joining any bona fide labor organization.

"6. All the rights, privileges, or immunities conferred by such law or by acts done pursuant thereto shall exist subject to the power of the legislature to amend or repeal such law at any time." (1)

This title defines the term "employer" as not to "include any person unless on each of some twenty days during the taxable year, each day being in a different calendar week, the total number of individuals who were in his employ for some portion of the day (whether or not at the same moment or time) was eight or more."

The term "employment" under this title means practically the same as under old age taxes, but an additional clause is added which says that service performed by an individual in the employ of his son, daughter or spouse, and service performed by a person under 21 years of age in the employ of his parents, will not be taxed.

(1) Social Security Act, Seventy-fourth Congress, Publication No. 271, p. 23

This tax is to be collected by the Bureau of Internal Revenue, and placed in an Unemployment Trust Fund in the Treasury of the United States.

Title X of the Social Security Act provides for an appropriation to aid the states in taking care of their needy blind.

The conditions with which the states must comply to receive Federal aid are the same as those required under the old age and mothers' aid systems.

Title XI consists of definitions of certain terms that are used in the Act.

- "1. The term 'State' (except when referring to vocational rehabilitation) includes Alaska, Hawaii, and the District of Columbia.
- "2. The term 'United States' when used in a geographical sense means the States, Alaska, Hawaii, and the District of Columbia.
- "3. The term 'Person' means an individual, a trust or estate, a partnership, or a corporation.
- "4. The term 'Corporation' includes associations, joint-stock companies, and insurance companies.
- "5. The term 'Shareholder' includes a member in an association, joint-stock company, or insurance company.
- "6. The term 'Employee' includes an officer of a corporation." (1)

(1) Social Security Act, Seventy-fourth Congress, Publication No. 271, p. 31

Problems Following the Passage of the Social Security Act.

One of the greatest problems created by the Social Security Act was its constitutional vulnerability. First of all it was questionable whether the Federal Government had the power to even enact a social security program. The constitution does not forbid the Federal Government to legislate for social security, but on the other hand, it states that all powers not delegated to the Federal Government and not forbidden to the states are reserved to the states. Thus, the problem of social security is actually a matter belonging to the state, unless declared otherwise by the Supreme Court.

Furthermore, each of the three methods of operation, used in the social security program, may be questioned as to their constitutionality.

The first method provides that money be given to the states who enact laws meeting specific minimum Federal requirements, to assist them in different programs. The Federal Government does not have the power to spend money directly for these purposes; however the Supreme Court has never held it improper to provide this money through the states.

The second method of operation consists of the use of taxes to raise money for old-age annuities. Under the Constitution, Congress may levy taxes to provide for the general welfare, but whether this is considered as a means of providing for the general welfare must be decided upon by the Supreme Court.

The third method of operation involves the tax-offset method to induce the states to set up unemployment compensation programs. It was questioned whether this levy upon employers of eight or more was a tax, or a penalty whereby Congress was seeking, by an indirect method, to regulate where it did not have the power.

Another problem created by the Act was the question of the huge reserves which will be built up as a result of the taxes. It has been estimated that in 1950 the tax receipts will equal \$1,877,200,000, and that the benefits paid will equal \$505,500,000. This leaves a balance of \$1,371,700,000. Today the balance is \$4,500,000,000, which is even greater than the estimated amount for 1950.

By 1980, the balance in reserve has been estimated to equal \$46,942,700,000. (1) Abraham Epstein states that

"This sum is equivalent to four times the value of all the gold reserves of the world's central banks and governments. It is about \$17,000,000,000 above the outstanding United States present indebtedness. It represents an amount greater than the national income during each of the years 1932-1933. It is almost two-and-a-half times as much as the total reserves accumulated by all the life insurance companies within the last hundred years." (2)

The Social Security Act states that these funds are to be invested in government securities. However, this is liable to bring about serious economic changes. The

(1) Epstein, A., Insecurity A Challenge To America, New York, p. 762

(2) Ibid., pp. 762, 763

usurping of all government securities will create a dangerous centralization of wealth and credit. Furthermore, the former holders of these government securities will be looking for other types of investment, and this market for new investments will be dependent upon an expansion of buying power. Maxwell Stewart has stated the following concerning this reserve:

"In the belief that they were following the principles of sound finance, its authors (of the Social Security Act) have created in the reserve fund a Frankenstein which might conceivably crush the financial structure of the country." (1)

If part of the funds were deposited with the Federal Reserve banks and part with ordinary savings banks, the business cycle would be less accentuated and there would be a greater economic balance. However, the Social Security Act does not permit this type of investment.

Another questionable feature of the Social Security Act is its levying of taxes mainly upon the lower income groups. Under old age insurance, the tax imposed will amount to about nine per cent of the total wages of industrial and commercial workers. This burden upon these workers will reduce considerably their consuming power. Maxwell Stewart criticizes this provision of the Act as follows:

"Intended as a device to raise consumer purchasing power and stabilize our economic

(1) Stewart, M. S., Social Security, New York, P. 162

system, the Social Security Act threatens to unbalance the economic structure through its tax on low-income groups." (1)

The group upon which the tax is levied is in greatest need of its income. This situation could be remedied by taxing the wealthier classes and perhaps excess profits and inheritances.

One of the most serious defects of the Social Security Act was its failure to give immediate assistance to the present unemployed. Benefits under the unemployment provisions did not start until two years after each state had enacted an unemployment insurance law. Thus, the present unemployed at that time had to be taken care of by the P. W. A. or public relief.

There is also the question of those who remain unemployed beyond the benefit period of sixteen weeks. A study of unemployment was made in Palo Alto, California, which revealed that in 1934-35, 35 per cent of the people had been unemployed for an entire year. (2) Also, \$15 a week is not a very adequate amount of sustenance, especially today with the rising costs of living.

Under the unemployment provisions of the Social Security Act agricultural workers and domestic servants are not provided for; yet these workers are among the lower

- (1) A study of Contemporary Unemployment and Basic Data for Planning. A Self-Help Cooperative in Palo Alto, 1935-1936, (Coordinator of Statistical Projects, Works Progress Administration, San Francisco) 1936, p. 6
- (2) Stewart, M. S., Social Security, New York, 1937, P. 149

income groups, and their work is often of a temporary nature. These groups should be provided for in regard to unemployment.

The chief reason that agricultural workers and domestic workers in private homes were not covered was the difficulty of administration. After several years of experience, however, it appears that the program can be applied to both groups without imposing any undue burden on either the worker or the employer.

Employees of non-profit institutions present no administration difficulties. They were excluded primarily because educational and religious groups did not wish to come in. However, many who originally opposed coverage have asked that the program be extended to them, and it seems likely that some formula can be worked out.

Government employees were likewise opposed to coverage because they already enjoyed more liberal retirement rights than those provided by the Social Security program.

The administration of unemployment insurance is on a Federal-State basis. The administration of this insurance could be made much more simple if put on a national basis. An expert on social insurance states:

"The advantages of such a system over the cumbersome federal-state plan are manifold. Experience has shown that the Federal Government, because of its superior financial resources, is nearly always more liberal in social welfare legislation than the states. Only a national

plan can assure uniformity in the treatment of the unemployed and faithfulness of administration. While it is true that wages, working conditions, and living standards vary in different parts of the country, they do not differ nearly as much as the general level of state administration. If sectional differences are necessary, which is doubtful, they could be provided more satisfactorily in a comprehensive national act than in a hodge-podge of state legislation. Even assuming that attempts to coerce the states into specific legislation will be declared constitutional, it is evident that the gradual improvement in the legislation is bound to be exceedingly difficult in this country in view of the fact that the action of forty-eight state legislatures is required." (1)

If the plan for administering unemployment insurance was put on a national basis, the program would conform more with the fundamental principles of social insurance. The risk would then be extended over as large a group as possible, and not among the individual states.

The Social Security Act makes no provision for migratory workers. Today in the United States there is a great mobility of labor. Yet, under the Social Security Act, if a worker moves to another state and becomes unemployed, he is not entitled to benefits. This will leave a large number of workers without unemployment benefits, who are actually entitled to them.

A study of the Social Security Act reveals that there have been no allowances made for changes in the value of the dollar. If there should be an inflation, the workers'

(1) Epstein, Abraham A., Insecurity A Challenge to America, New York, 1936, pp. 669, 670

annuities might be worth very little. This could be taken care of by providing for adjustments as the cost of living changes.

Significance of the Social Security Act.

From the above criticisms we may see that the Social Security Act has many defects. However, the men who worked untiringly as they studied the great problems were faced with many handicaps. No one had ever before been committed to such a task. Considering this, it would be unfair to assume that their program would emerge perfect and faultless.

The Committee on Economic Security chose to handle all the problems of insecurity; thus, they could not give their undivided attention to each problem. The difficulties arising from the Act can be ironed out with time and experience.

We may truly regard the Social Security Act as an ambitious step in the sphere of social welfare. It shows the recognition by the Federal Government of its responsibility to help provide against the risks inherent in our economic order.

The true significance of the Act may be seen in the following quotations. Maxwell Stewart in his book on Social Security states:

"Without claiming too much for the Act as an instrument of social security, it

cannot be denied that it furnishes at least partial protection to approximately half of the American population. For those who qualify, much of the curse of short-term unemployment has been abolished. Nearly a third of all adult Americans may look forward to a measure of protection in their old age, and those who are ineligible for annuities may expect a greater degree of assistance from state pensions. The aid for the sick, the disabled, the widows, and orphans is still far from satisfactory, but even on these points the Act has recognized an element of Federal responsibility. While the degree of social security afforded by the Act fails to approach that granted by many European countries, it must be remembered that they too started relatively cautiously and they have repeatedly broadened the scope of their legislation." (1)

Eveline Burns, in her criticism of the Act stated the following:

"The Act is undoubtedly a step toward giving greater security to millions of people. Perhaps its most important achievement is the introduction of a new kind of security. For the first time workers will be entitled to income when their wages cease. Both the contributory old-age annuities and the unemployment compensation system provide payments carrying no sense of degradation, no suggestion that the recipient is in any way undeserving, and no necessity to reduce himself to the status of a pauper to obtain his income.

"In another direction also the Security Act marks a tremendous advance. It is an acceptance by the Federal Government of a permanent responsibility for providing a minimum of security for the average American. For the first time federal funds are available on a large scale to increase security. For the first time there is a permanent department of the federal government charged with the

(1) Stewart, Maxwell S., Social Security, New York, 1937,
p. 141

responsibility of exploring ways of adding to that security.

"The Social Security Act thus represents an advance on previous conditions so great as to be one of the major events in the social history of the country." (1)

Abraham Epstein, noted scholar of social insurance states:

"The passage of the Social Security Act is deeply significant of the progress made. By its enactment the ideal of social insurance has at last assumed the important place in American political, economic and social life it has long merited. The passage of the Act not only establishes Federal responsibility for social welfare, but also gives decisive public recognition to the desirability of social insurance. The record passage of the Act by such overwhelming majorities in Congress, and the attempts now made by the states to conform to this law, represent genuine forward steps in the direction of a more constructive social order. The fact that constantly increasing numbers of our population are accepting the program of social insurance is of prodigious social significance. The policy of each for himself has at last been replaced by the conception of social security for all. The United States has finally envisioned the ideal of governmental action against our social hazards and has taken the first steps in that direction. The deficiencies of the Act cannot obscure the fact that America has definitely committed itself to the alleviation of the major ills of our modern industrial system through the constructive instrumentality of social insurance." (2)

(1) Burns, Eveline M., Toward Social Security, New York, 1936, pp. 231, 232

(2) Epstein, Abraham A., Insecurity A Challenge to America, New York, 1936, pp. 669, 670

SECTION V

SECTION V

DEVELOPMENTS IN SOCIAL SECURITY FROM 1935 TO THE PRESENT

Increasing Interest In Social Security

The enactment of the Social Security Act in 1935 marked a new era in the history of the United States. Since the passage of this Act great progress has been made in the field of Social Security. As a result of the Federal aid provided in the Social Security Act, the States were enabled to extend their assistance programs to the needy aged, dependent children, and the needy blind. The incentives provided in the Social Security Act stimulated rapid passage of State unemployment compensation laws. Before the Act was passed, only one State, Wisconsin, had a going system of unemployment insurance; now all the 48 States and Alaska, Hawaii, and the District of Columbia have approved laws.

Each year the United States is becoming a step nearer its goal, namely, Social Security. Because each year has made considerable progress, I shall discuss them individually.

Developments in Social Security -- 1936

When the Social Security Act was passed in 1935 thirty-one States and two territories had mandatory old-age

insurance laws. By December 1936 thirty-nine states had old-age insurance laws.

In unemployment insurance there was a still greater increase. By the end of 1936, thirty-seven states had unemployment insurance laws, as compared with eight states and the states and the District of Columbia in 1935. (1)

During 1936 twenty-two states had laws approved by the Social Security Board, relating to aid for the dependent children, and mothers' pensions, and grants were being given for 178,000 children. The Social Security Board also approved plans for needy blind in twenty-two states, and in July of 1936, 22,000 individuals were receiving assistance under this plan. (2)

As may be seen in the table on the following page, payments by the Federal Government to the states, under the Social Security Act, accounted for 87.4 per cent of the total amount of old-age assistance payments, 43.6 per cent of the total for aid to dependent children, and 46.6 per cent of the total for aid to the blind. Health and welfare programs for which federal grants under the Social Security Act were made, were in operation in many states. (2)

(1) Social Security Yearbook, Washington, D.C., 1939, p.6

(2) Ibid., p. 6

(3) Ibid., p. 6

TABLE I

PAYMENTS TO RECIPIENTS IN STATES PARTICIPATING
UNDER THE SOCIAL SECURITY ACT

(Per cent of total payments)

Year	Old-age assistance	Aid to dependent children	Aid to blind
1936	87.4	43.6	46.6
1937	99.9	85.9	67.9
1938	99.3	95.5	57.2
1939	100.0	96.4	60.8
1940	100.0	97.4	61.8
1941	100.0	98.2	63.4
1942	100.0	100.0	69.5

Social Security Yearbook, Social Security Board, Washington, D. C., 1939,
 pp. 5, 7, 9, 14

Social Security Yearbook, 1940, p. 8

Social Security Yearbook, 1941, p. 8

Social Security Yearbook, 1942, p. 7

The number of states having these programs were as follows: (1)

	States
Public Health Programs.....	48
Maternal and Child Health Programs.....	46
Services for Crippled Children.....	35
Child Welfare Services.....	31
Vocational Rehabilitation.....	46

Developments in Social Security -- 1937

In the spring of 1934 a bill had been introduced to Congress, providing for a retirement pension for all railroad employees. Under this plan employees were to contribute 2 per cent of their wages, and carriers were to contribute 4 per cent. The fund was to be distributed under the direction of a Railroad Retirement Board established by the plan. This bill was enacted into law on June 27, 1934. However, it was declared unconstitutional by the United States Supreme Court in the case of "Railroad Retirement Board v. Alton Railroad Company", on May 6, 1935. (2)

Soon after this decision, labor and railroad representatives united in order to formulate a new act. This resulted in the Railroad Retirement Act of August 29, 1935. Under this Act the carriers pay an excise tax of $3\frac{1}{2}$ per cent of the wages paid to their employees not in excess of \$300

(1) Social Security Yearbook, Washington, D.C., 1939, p. 7

(2) "Railroad Retirement Board v. Alton Railroad Company", May 6, 1935, 295 U. S. 330

per month. Employees also pay $3\frac{1}{2}$ per cent of their wages. During 1937 this Act was amended on June 24, to liberalize retirement payments, and to increase payments for both employers and employees to $3\frac{3}{4}$ per cent.

As stated in the previous chapter the Social Security Act and some of its features were questioned as to their constitutionality. However, on May 24, 1937, the Supreme Court handed down a series of decisions which declared the Social Security Act and all its questionable features constitutional.

In the case of "Steward Machine Company v. Davis" (1) the method of providing unemployment compensation was declared constitutional. In regard to whether the Federal government could levy taxes on employment, the Court ruled that this was as justifiable as the government's power to tax property and income. The Court declared that the states could not give sufficient relief to the unemployed, and that there was need of help from the national government. This levy was considered as a tax for the general welfare.

The question of the tax-offset was declared constitutional on the grounds that:

"..the law has been guided by a robust common sense which assumes the freedom of the will as a working hypothesis in the solution of its problems....We cannot say that she (Alabama) was acting, not of her unfettered will, but under

(1) "Steward Machine Company v. Davis", 301, U. S. 548

the strain of a persuasion equivalent to undue influence, when she chose to have relief administered under laws of her own making, by agents of her own selection, instead of under Federal laws, administered by Federal officers, with all the ensuing evils, at least to many minds of Federal patronage and power." (1)

The Court declared further that the tax-offset was not a method of coercion. The Court stated that if,

"...the general welfare would better be promoted by relief through local units than by the system then in vogue, the cooperating localities ought not in all fairness to pay a second time." (2)

Because the Social Security Act gave the states much freedom in enacting and supervising their unemployment laws, the Court did not consider that the states were giving up some of their powers.

In the case of "Helvering v. Davis" (3) the Court declared the Federal old-age insurance system constitutional. The Court stated:

"The problem is plainly national in area and dimensions. Moreover, laws of the separate states cannot deal with it effectively. Congress, at least, had a basis for that belief. States and local governments are often lacking in the resources that are necessary to finance an adequate program of security for the aged. . . Apart from the failure of resources, states and local governments are at times reluctant to increase so heavily the burden of taxation to be borne by their residents for fear of placing themselves in a position of economic disadvantage as compared with neighbors or

- (1) "Steward Machine Company v. Davis", 301. U. S. 548
- (2) Ibid
- (3) "Helvering v. Davis", 301 U. S. 619

competitors. . . A system of old-age pensions has a special danger of its own, if put in force in one state and rejected in another. The existence of such a system is a bait to the needy and dependent elsewhere, encouraging them to migrate and seek a haven of repose. Only a power that is national can serve the interests of all.

"Whether wisdom or unwisdom resides in the scheme of benefits set forth in Title II, it is not for us to say. The answer to such inquiries must come from Congress, not the courts. Our concern, here, as often, is with power, not with wisdom. Counsel for respondent has recalled to us the virtues of self-reliance and frugality. There is a possibility, he says, that aid from a paternal government may sap those sturdy virtues and breed a race of weaklings. If Massachusetts so believes and shapes her laws in that conviction, must her breed of sons be changed, he asks, because some other philosophy of government finds favor in the halls of Congress? But the answer is not doubtful. One might ask with equal reason whether the system of protective tariffs is to be set aside at will in one state or another whenever local policy prefers the rule of laissez-faire. The issue is a closed one. It was fought out long ago. When money is spent to promote the general welfare, the concept of welfare or the opposite is shaped by Congress, not the states. So the concept be not arbitrary, the locality must yield." (1)

In the case of "Carmichael v. Southern Coal Company", (2) the Court upheld the constitutionality of pooled state unemployment insurance laws. The Court declared that:

"...expenditures for the relief of the unemployed, conditioned on unemployment alone, without proof of indigence of recipients of the benefits, is a permissible use of state funds." (3)

(1) "Helvering v. Davis," 301 U.S. 619

(2) "Carmichael v. Southern Coal Company", 301 U.S. 495

(3) Ibid.

By the end of 1937 all of the states had passed unemployment insurance laws. Much progress had been made in giving aid to dependent children, the blind, and in public health. Public assistance payments to recipients in the continental United States from Federal, State, and local funds amounted to \$398,000,000 for 1937. (1) The number receiving aid in December of this year amounted to: (2)

Old-Age Assistance.....	1,577,000
Dependent Children.....	565,000
Blind.....	228,000
General Relief.....	1,626,000

As seen in the table on page 72 payments to recipients in states participating under the Social Security Act increased to 99.9 per cent of the total amount of old-age assistance payments, 85.9 per cent of the total for aid to dependent children, and 67.9 per cent of the total for aid to the blind.

Under old-age insurance 27,406 individuals had received payments. Under the Railroad Retirement Act, 85,701 individuals were receiving annuities and pensions. (3)

Developments in Social Security -- 1938

During 1938 public assistance payments increased to \$509,000,000. This was an increase of \$111,000,000 over

- (1) Social Security Yearbook, Washington, D.C., 1939, p. 10
- (2) Ibid., p. 10
- (3) Ibid., p. 11

1937. In December of this year the number receiving aid were as follows:

Old Age Assistance.....	1,776,000
Dependent Children.....	684,000
Blind.....	67,000
General Relief.....	1,631,000

Payments to recipients in States participating under the Social Security Act accounted for 99.3 per cent of all old-age assistance payments, 95.5 per cent of the total amount for aid to dependent children, and 57.2 per cent of the total for aid to the blind.

Fifty-one jurisdictions of the United States had unemployment compensation laws, and all these jurisdictions received Federal grants for the administration of their program. 3,800,000 unemployed workers were receiving compensation.

91,819 individuals were receiving old age insurance payments. This was an increase of 64,411 over 1937.

Under the Railroad Retirement Act 121,555 individuals were receiving annuities.

By the end of 1938 public-health services and maternal and child-health services were in operation in all the jurisdictions of the United States. Services for crippled children were in operation in all but one, child-welfare services in all but one, and vocational rehabilitation in all but two jurisdictions. (1)

(1) Social Security Yearbook, Washington D. C., 1939, pp. 9,10

On December 16, 1937 President Roosevelt had recommended several amendments to the Social Security Act, and during 1938 the Advisory Council on Social Security studied and worked on some of the problems under old-age insurance, and under several other provisions of the Act. The work of the Advisory Council on Social Security resulted in the Social Security Act Amendments of 1939.

Development in Social Security -- 1939.

The Advisory Council on Social Security worked in collaboration with the Social Security Board. The proposed amendments were submitted to Congress on January 16, 1939. The bill was passed by the House of Representatives on June 10, 1939, and by the Senate on August 5, 1939.

The Social Security Act Amendments of 1939 were drawn up in order to strengthen and extend the principles and objectives of the Social Security Act. Only the foundations had been laid for a social security program, and as it was pointed out, it was necessary to make some changes and to build up the present structure.

1. In regard to the taxes under the Social Security Act, the old age insurance tax on workers and employers was one and one-half per cent of wages for 1940, 1941, and 1942. Under the amendments this tax is reduced to one per cent for each of the three years. This was done because of the complaints that the taxes were too high. This reduction

saved employers and workers about \$275,000,000 in 1940, or a total of \$825,000,000 for the three years ending in 1940. (1)

Provisions are made so that the States may reduce their unemployment-insurance contributions if a certain reserve fund has been attained and minimum benefit standards have been provided. All except about five states were able to take advantage of this change during 1940. It was estimated that this would probably save employers from \$200,000,000 to \$275,000,000 during 1940 if the states reduced their contribution rates from an average of 2.7 to 2 per cent.

As is already the case under old age insurance, only the first \$3,000 an employer pays an employee for a year is taxed under the unemployment-compensation provisions. This saves employers about \$65,000,000 a year.

Provision is also made for refunds and abatements to employers who paid their 1936, 1937, and 1938 unemployment-compensation contributions late to the States. This saved employers approximately \$15,000,000.

As a result of the reduction in taxes and the refunds, the total savings amounted to about \$2,290,000,000.

2. In regard to benefits under old age insurance, aged wives, widows, children, and aged dependent parents are now included. Their benefits would begin Jan. 1, 1940.

(1) Social Security Yearbook, Social Security Board, Washington, 1939, p. 12

This will increase total benefits paid for 1940-41 to \$1,755,000,000, which is about \$1,200,000,000 above what was estimated would be spent under the original provisions.

3. In regard to coverage, certain services including services for agricultural and horticultural associations, voluntary employees' beneficiary associations, local or ritualistic services for fraternal beneficiary societies, and services of employees earning nominal amounts (less than \$45 per quarter) of nonprofit institutions exempt from income tax, are also exempted from old age insurance and unemployment compensation.

The term "agricultural labor" is defined so as to clarify its meaning and to extend the exemption to certain types of service which, although not at present exempt, are an integral part of farming activities.

Also about 1,100,000 additional persons, including seamen, bank employees, and employed persons age 65 and over, are brought under the old age insurance system and about 200,000 are brought under unemployment insurance. The latter consist chiefly of bank employees.

4. In the field of vocational rehabilitation provision is made for a \$1,000,000 per year increase in the authorization for Federal grants to the States for vocational rehabilitation work. This will increase the present Federal authorization from \$1,938,000 to \$2,938,000.

5. In regard to the administration of the Social Security Act, a Federal old-age and survivor insurance trust fund is created for safeguarding the insurance benefit funds. The trustees of this fund are to be the Secretary of the Treasury, the Secretary of Labor, and the Chairman of the Social Security Board.

An additional provision is made to restrict the use of information concerning recipients of State old-age assistance (particularly their names and addresses) to purposes directly connected with the administration of old-age assistance. This was designed to prevent the use of such information for political and commercial purposes.

From the Social Security Act Amendments of 1939 it is evident that old age insurance, unemployment compensation, and public assistance are now considered as essential in our economic order. Many of the weaknesses of the original act have been corrected, which is an assurance that further defects will be eliminated with time.

During 1939, public assistance payments increased \$566,000,000 which was \$57,000,000 more than in 1938. For the month of December payments were made to the following number:

Old Age Assistance.....	1,909,000
Dependent Children.....	757,000
Blind.....	315,000
General Relief.....	1,567,000

Payments to recipients in States participating under the Social Security Act accounted for all old age assistance payments, 96.4 per cent of the total amount for aid to dependent children, and 60.8 per cent of the total for aid to the blind.

Under the Railroad Unemployment Insurance Act 385,450 individuals were receiving benefits. Under the Social Security Act 59,343 individuals were receiving old age insurance payments, and 28,000,000 workers were receiving unemployment compensation.

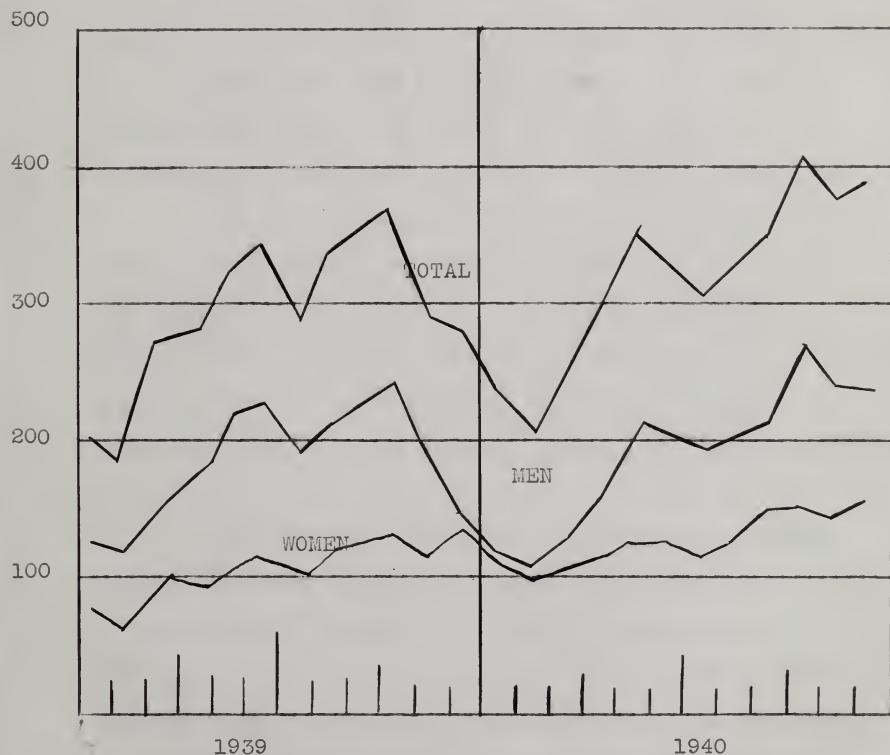
As stated in the Social Security Act, reserve funds could be invested only in government securities. At the end of 1939 the old age reserve account was holding 34.4 per cent of the total public debt, and the Unemployment Trust Fund was holding 3.6 per cent of the public debt.

Development In Social Security -- 1940

The year 1940 brought about radical changes in the Social Security of the American worker. The inauguration of the defense program created an unprecedented demand for workers. This sudden stimulus to employment did not begin until the latter part of the year, but in spite of this fact placements by the United States Employment Service totaled 3,800,000, the highest number since 1936. The chart on the following page shows the upward trend of employment

TABLE TWO
PLACEMENTS OF EMPLOYMENT SERVICES
1939----1940

Thousands of
Placements



Social Security Yearbook, Washington, 1940, p. 87

during the latter half of 1940.

However, not considering the defense program, figures indicate that more workers were finding jobs; that the hazard of unemployment was disappearing. Placements during the first three quarters of 1940 averaged 3 per cent above the same period of 1937. Railroad employment offices placed 1,709 unemployed workers in jobs during October, November and December of 1940. The great army of the unemployed was considerably smaller.

Under the Social Security Act Amendments of 1939, monthly benefits to aged retired workers, to dependents of such workers, and to survivors of deceased workers first became payable in 1940. 222,000 individuals were receiving benefits under this provision. 146,000 individuals were receiving annuities and pensions under the Railroad Retirement Act.

The effect of the defense program upon public assistance was also marked. Total expenditures for 1940 for payments to recipients of public assistance and earnings of persons employed under Federal work programs amounted to \$2,700,000,000, which was lower than any year since 1937. During December of 1940 payments for public assistance were made in the following amounts: (1)

(1) Social Security Yearbook, Washington, D. C., 1940, p.8

Old Age Assistance.....	2,100,000
Dependent Children.....	890,000
Blind.....	73,000
General Relief.....	1,200,000

Also during 1940, President Roosevelt sent a message to Congress, stressing the health needs of the nation and proposing the construction of small hospitals in needy areas of the country. Concerning this he stated:

"...a Committee of the Congress has already begun a careful study of health legislation. It is my hope that such study will be continued actively during the present session, looking toward constructive action in the next. I have asked the Interdepartmental Committee to Coordinate Health and Welfare Activities to continue its studies." (1)

Developments In Social Security -- 1941.

The year 1941 brought about far more radical changes in the economic life of the individual. By 1941 the establishment of the defense program was more evident, and the changes were reflected more clearly in the operations of the social security program.

The underlying effect upon the social security program was the rise in employment due to a more concerted effort to produce war materials. From December, 1940 to December, 1941 unemployment decreased 50 per cent. Also the Employment Service filled 7,100,000 jobs, which was an

(1) Message to Congress, President Roosevelt, Jan. 30, 1940

increase of 42 per cent over the previous year. This was also the largest volume on record for any year.

During 1941 the number of claims for old age and survivors insurance was 8 per cent greater than in 1940. Part of this increase was due to the rising number of old people in the population.

Although there was a sharp decline in general relief, there was a considerable rise in payments to the needy aged, needy blind, and dependent children. Under old age assistance there was an increase of 8.1 per cent over 1940. Aid to dependent children showed an increase of 5.4 per cent. Aid to the blind increased 5.3 per cent. This increase may be attributed partly to:

1. The extension of Federal financial participation to new States.
2. Liberalization of eligibility provisions in State laws.
3. Increase in the amount contributed by the Federal government.

Also during 1941 a special committee to investigate old age pension systems submitted to the legislature a bill which would amend the Social Security Act to:

1. Reduce from 65 to 60 the age at which insurance and assistance payments shall be granted.
2. Eliminate a means test in old age assistance and grant minimum pension or benefit to all retired workers.
3. Abolish the present system of Federal matching grants to States for old age assistance.

4. Liberalize and extend old age and survivors' insurance program by making coverage nearly universal, raising minimum payment to \$30, and also further liberalizing payments to wives and widows with dependent children.

During December, 1941, a special committee was appointed by the Director of Defense Health and Welfare Services to consider the problems of rehabilitating disabled veterans of the armed forces, civilians injured by enemy action, and others who are unemployable because of accidents and other causes. This committee is composed of representatives of the Federal Security Agency, the Office of Production Management, the Social Security Board, the Veterans Administration, the Public Health Service, the Employees' Compensation Commission, the Department of Labor and the Office of Education.

On September 3, 1941 an office of Defense Health and Welfare Services was established. This office is to meet the needs of national defense by assuring adequate health, welfare, medical, nutrition, recreation, and related services.

The work of this office consists of the following activities:

1. To coordinate health and welfare services made available by Federal agencies and other agencies, both public and private, to meet State and local needs arising from the defense program.

2. To make available services of specialists to assist in planning and executing State and local health and welfare activities.
3. To study, plan, and encourage measures for adequate defense health and welfare services during the emergency and to coordinate studies of other Federal agencies relating to these fields.
4. To keep the President informed as to the progress made in carrying out the assigned functions. (1)

Developments in Social Security -- 1942 up to the Present

During 1942 employment continued to increase, and by the end of the year totaled 51,900,000 as compared with 48,800,000 in 1941. Unemployment benefit payments decreased 58.5 per cent. Railroad unemployment benefit payments decreased 83.3 per cent.

Under the old age and survivors insurance program payments continued to increase with a gain of 34.9 per cent. Under the Railroad Retirement Act payments increased 2.5 per cent. (2)

During 1942 the number of persons in the United States dependent upon public aid declined sharply. This was due to the speeding up of the war effort and the increase in manpower requirements. The number of cases under general

(1) Social Security Yearbook, Washington, D.C., 1941, p. 10

(2) Ibid., p. 11

assistance was only three-fifths of the number for 1941. For the first time, the programs of old-age assistance and aid to dependent children also declined below the level of the preceding December. Only aid to the blind showed a small rise.

Due to the increased demands for labor many mothers were going to work. This created the problem of taking care of these children. To meet this problem \$6,000,000 was appropriated for the operation of nursery schools for day care of children of working mothers.

Also President Roosevelt, from his Emergency Fund, allocated \$40,000 to the Office of Defense Health and Welfare Services to promote and coordinate day-care programs for children of working mothers through grants to States for educational and public welfare programs under plans approved by the Office of Education and Children's Bureau.

On May 22, 1942 the Old Age and Survivors' Insurance provision of the Social Security Act was amended. In the determining of old age and survivors' insurance benefit rights, each quarter for which a person has been paid wages of not less than \$50 in covered employment will be counted for purposes of determining the "currently insured" status.

On January 6, 1942 the President recommended the following changes in the present status of the Social Security Act:

1. To increase coverage under old age and survivors' insurance program.
2. To provide benefits for permanent and temporary disability and hospitalization.
3. To expand unemployment compensation in a uniform national system.
4. To increase employee and employer contributions for social insurance purposes.
5. To modify Federal grants for public assistance to accord with the financial needs of the States.

Ever since the exclusion of certain groups in the Social Security Act, much controversy has arisen. Many believe that all groups should be covered. However, the subject is still under discussion and no changes have been made as yet.

When the subject of increasing the social security tax came up before Congress, the houses refused to permit this increase. Workers and employers were already being taxed heavily enough without paying higher taxes.

Controversy has also arisen concerning the use of the tax revenues. Some of it, instead of being invested in government securities, had been invested in debt. To repay this money the Treasury will have to sell other bonds to the public or collect other taxes. This means that the workers will have to pay more taxes to replace the IOU's left in place of their own money. This revenue should not be available for

such spending.

During 1943 and 1944 rehabilitation plans for the returning soldiers began to take shape. Congress provided for the appropriation of additional funds of the Federal government to aid state rehabilitation programs and also permitted the States to expand their staffs and functions. The Federal government will now pay \$2 for every state dollar, and will pay all the administrative expenses of the states.

Toward the end of 1942 the subject of Social Security became an even greater subject of interest and topic of conversation. People were realizing the need of a firmly established social structure, in order to stand the supreme test of a post-war economy.

CONCLUSION

CONCLUSION

Social Security in Review

Since 1935, Social Security has made remarkable progress in the United States. This was a long time after Social Security measures had been established in Europe, but as it has been pointed out, the United States did not become industrialized until long after England and other European countries did. Economic conditions in the United States were such as to delay any action in social legislation. As pointed out in Section II, it was not until the impact of the industrial revolution, when it reached this country, and the depression, that advances were made in Social Security.

As soon as local governments became aware of their responsibilities, state governments soon followed them. During the depression the national government realized that the states were unable to meet the problems alone. Immediately after this recognition by the Federal government, a committee was appointed by the President to study the existing problems of insecurity.

This work was done under none too favorable conditions, and yet it resulted in one of the greatest pieces of Social Security legislation of all time.

In spite of the tremendous scope of coverage of the Social Security Act, many problems were yet to be solved. The Social Security Act Amendments of 1939 corrected many of the defects of the original Act, and provision has been made whereby a group of men are constantly studying the ever-changing problems of insecurity.

Today nation-wide measures are in effect for assistance to the needy aged and, with respect to industrial and commercial workers and their dependents, for old-age and survivors' insurance. Some of the most severe risks of childhood have been counteracted, and many provisions have been made and put into effect for the improvement of public health and maternal and child health and welfare. Unemployment insurance has been established for millions of workers.

Although the security of the American citizen is far greater than it was fifteen or twenty years ago, the Social Security program has not as yet been given a chance to fully prove its effectiveness, due to our entrance into the war.

During the past two and a half years the United States has gone through a complete transition from peace-time to war-time production. This transition has effected a radical decrease in one of the most feared insecurities, that of unemployment. This was seen in the developments of 1940, 1941, and 1942. There has been a complete reversal in economic conditions

and we have gone from an overabundance of labor to a labor stringency.

Post-War Social Security

Although Social Security has been, in the past, important to the American people, the changes which are now occurring will probable make Social Security in the post-war period more important than ever before. Our present Social Security program may have to undergo a sharp test.

In the post-war period Social Security will have to deal with the problems arising out of demobilization, and the transition of production for war purposes to peace-time production.

One of the greatest problems will be that of finding jobs for the returning soldiers. This means that the services of the government employment offices will have to be extended. But in spite of the work of these offices, there will probably be many who will not be able to obtain jobs at once. These individuals will need economic protection. Social Security could take care of this by some sort of insurance scheme, providing benefits for a limited time. This would greatly facilitate the search for employment.

There will also be an intensified need for vocational rehabilitation programs. Disabled soldiers will need vocational

training before they will be able to return to industrial and commercial jobs. These soldiers could be trained for occupations where there are prospects of employment.

There will be the need for a re-allocation of the labor in industries which had been equipped for national defense. Services could be provided to help these workers to find placements in peace-time industries.

Public assistance coverage should be extended beyond aid to the needy aged, blind and dependent children. Public works programs will undoubtedly be very necessary after the length of time that public improvements have been postponed.

In the post-war reconstruction period, the present health program must be expanded. Individuals should be guaranteed of the necessary medical services. There will be a great need for the construction of hospitals and clinics, as advocated by the President.

There will also be the question of the mobility of labor. If workers are employed in more than one state, they either lose all of their benefit rights, or their benefit rights are reduced because employment in each state is considered separately under each state law in determining whether a worker qualifies for benefits and in determining the amount of benefits for which he qualifies. Provision should be made for these workers.

Due to the concentration of war production in some states, the reserves of these states may be entirely wiped out

soon after the end of the war. This could be taken care of by putting unemployment insurance on a national basis. If this were done there would be more protection at less cost; and the problem of the mobility of labor and workers in more than one state would be eliminated. There would also be the advantage of only one set of records instead of forty-eight.

Our goal, as stated by Wilbur J. Cohen, should be:

"The establishment of a well-rounded system of social insurance to provide at least a minimum security to individuals and their families who suffer a loss of income due to unemployment, sickness, disability, old age and death. In addition, we must provide a series of constructive social services to supplement social insurance. A basic system of public assistance, a national network of public employment services and similar community services are essential to the proper functioning of social insurance and to the protection of the individual. Under such a program every individual could be assured that these unforeseen contingencies would not leave him or his family dependent upon others but rather that should he meet with any of these unfortunate circumstances there would be a minimum regular cash income supplemented by other necessary services and assistance." (1)

As stated by the President of the United States:

"This is the time to strengthen, not to weaken, the Social Security system. It is time now to prepare for the security of workers in the post-war years. . . This is one case in which social and fiscal objectives, war and post-war aims are in full accord. Expanded Social Security, together with other fiscal measures, would set up a bulwark of economic security for the people now and after the war and at the same time would provide anti-

(1) Cohen, Wilbur J., "Next Steps and Future Goals", War and Post War Social Security, American Council on Public Affairs, Washington, D.C., 1942, p. 31

inflationary sources for financing the war." (1)

Upon our shoulders now rests the great responsibility
of providing for Social Security in the post-war period.

(1) American Council on Public Affairs, Washington, D.C.
1942, p. 1

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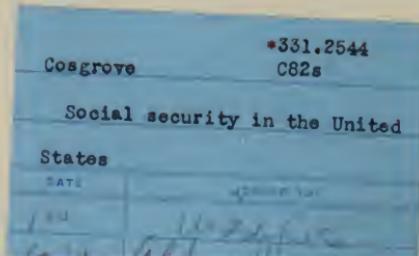
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